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SUBJECT: CROSS-STRAIT TRADE TALKS: THE VIEW FROM BEIJING

REF: A: BEIJING 2534 B: BEIJING 691 C: TAIPEI 1076

Classified By: Economic Minister Counselor William Weinstein for reason
s 1.4 b, d

(C) Summary: Local Taiwan business and academic contacts believe Chinese leaders are keen to conclude a cross-Straits Economic Cooperation Framework Agreement (ECFA) as a gesture of goodwill and are unlikely to press Taiwan hard for major concessions, choosing instead to focus on consensus to reap political benefits. They expect an ECFA will be concluded in 2010. At the same time, they emphasize that even with an ECFA, Beijing may not stand down its opposition to Taiwan entering into Free Trade Agreements (FTAs) with Taiwan's other trading partners. The contacts predict Beijing will likely concede to Taiwan's desire for early harvest liberalization of petrochemicals, textiles, machinery, and possibly automobiles, while delaying the reduction of tariffs in other sectors for future ECFA annexes. Investment, services, taxation, and possibly intellectual property rights (IPR), would also be addressed, either in the initial agreement or in later annexes, the contacts believe. END SUMMARY

(C) In separate meetings with EconOff, Chen Guoyuan, the Taiwan-born head of the Beijing Association for Taiwan Enterprises, and Wang Jianmin, Senior Fellow at the CASS Institute of Taiwan Studies, agreed that, for the Chinese government, the political benefits of ECFA will trump any economic interests. According to Chen, because China is already a major (and still-growing) world economy, Beijing would be willing to make economic concessions to Taiwan for the sake of political gain. China is so eager for positive cross-Straits developments that, if for some reason, ECFA does not come to fruition (perhaps due to Taiwan's domestic situation), the Chinese would simply take unilateral actions to expand cross-Straits economic ties by amending domestic legislation. In Wang's view, China's aim for ECFA is to further "peace, development, and mutual benefits" in the Chinese Diaspora, rather than to advance mainland economic interests.

ECFA Timeline Remains Unclear

(C) Taiwan Affairs Office (TAO) International Affairs Office Deputy Director Li Li told PolOff that China has no set timeline for ECFA negotiations. The TAO is "researching" the agreement and cannot predict when negotiations might be completed. There are many suggestions about how ECFA discussions could proceed and scholars "on the other side" have published their research, "but it is not yet clear if this will be the foundation of real negotiations," Li said. Referring to the Dalai Lama's then-ongoing Taiwan visit, Li did not say China would slow the pace of ECFA in retaliation, as some press accounts have suggested, and said that cross-Straits relations are too important to "let any one person disrupt them." (Ref A) Separately, our non-governmental contacts both predicted an agreement in 2010. Chen believed it will be signed by January 2010, while Wang expected it in the second half of 2010, at the earliest. Wang predicted that ECFA will have three phases. First, both sides will decide priorities and content for ECFA at the next cross-Straits talks between Taiwan's Straits Exchange Foundation (SEF) and

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China's Association for Relations Across the Strait (ARATS). Second, in the latter half of 2010, the two sides would sign a general framework agreement (i.e., ECFA), under which tariffs would be cut in a limited number of sectors. Third, in coming years, the two sides would sign additional annexes to further liberalize trade, using as a model the mainland's Closer Economic Partnership Arrangement (CEPA) with Hong Kong. Chen thought a more ambitious negotiation schedule is possible because Chinese leaders are more interested in reaching consensus for political expediency than in extended negotiations over substance.

Limited ECFA Scope Likely?

(C) The scope and content of an ECFA will be dictated on Taiwan's side by two goals: 1) counterbalancing the effects on Taiwan of the ASEAN-China free trade Agreement (FTA) and 2) affording Taiwan businesses the same treatment given Hong Kong businesses under the CEPA, Chen said. According to Wang, a group of Chinese experts is currently evaluating the possible impact of ECFA on China's economy. The findings, Wang said, will not likely be released to the public, but will guide which sectors Beijing will seek to open under ECFA. However, both Wang and Chen expect China to agree to the limited scope of tariff reductions in the sectors already proposed by the Taiwan side, i.e., the petro-chemical, textiles, machinery and possibly automobile sectors. Given the political benefits of signing the agreement, Chen contended that the Chinese government would take the "long view" in negotiating with Taiwan. Beijing will thus be sensitive to the domestic political climate in Taiwan and focus ECFA on sectors in which the pending ASEAN-China FTA could lead to trade diversion away from the island. (Ref B.) If Chinese negotiators were to expand the scope of ECFA, our non-

governmental contacts would not offer predictions on which sectors (e.g., electronics and high-tech) China would target. Both predicted that China would not demand reciprocity on agriculture and labor. Wang and Chen believed that ECFA would comply with all World Trade Organization (WTO) rules and regulations, but were unaware of any specific plan to meet the WTO requirement that trade agreements cover "substantially all trade."

(C) EconOff's contacts expect that ECFA will, in its final form, cover tariff and non-tariff barriers, taxation, services, investment, and possibly intellectual property rights (IPR), but were unsure whether all of these sectors will be included in the initial agreement or in its future annexes. Wang predicted that the two sides would discuss investment, IPR and double taxation at the next round of SEF-ARATS talks. Overall, however, Wang estimated that Taiwan would prioritize liberalization as follows: 1) the reduction of tariffs and non-tariff barriers; 2) market access in financial services and telecommunications; and 3) cross-Straits industrial cooperation initiatives. He predicted that while the Chinese government would agree to partially open the financial and telecommunications sectors, some restrictions would remain. On investment, the next steps would be to further increase the number of sectors in which mainlanders can invest in Taiwan. Wang expects that Beijing would likely select firms to invest in Taiwan but would not provide subsidies. Mainland negotiators would be receptive to Taiwan's ideas on what to include in ECFA, but a chapter on IPR will be hard to swallow if Taiwan demands parity with its own IPR standards, Wang suggested.

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Taiwan's "Wrong Idea"

(C) Both Wang and Chen told EconOff that Taiwan's leaders have the "wrong idea" if they think China will simply stand down its opposition to FTAs between Taiwan and other trading partners once ECFA is signed, an outcome that Taiwan's leaders continue to seek (Ref C). Wang eagerly took on the question, contending that if Taiwan wants to enter into FTAs with other trading partners it should follow a three-part strategy: 1) consult first with China under the SEF-ARATS channel; 2) refer to itself as "The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei)", as under the WTO; and 3) ensure that the FTA does not lead to "Two Chinas" or "One China, One Taiwan." More bluntly, Chen said Taiwan should "pay attention to language or they'll screw it all up." He likewise suggested that the only way to get China to stand down would be to make FTAs a priority under the SEF-ARATS talks, using observer status at the World Health Assembly as a model. Wang said that China's position on FTAs is an open question and one that the Chinese government and scholars should carefully consider. Under the instruction of President Hu, Mainland scholars are studying how to coordinate cross-Straits liberalization with other economic developments in Asia, Wang said.

HUNTSMAN